

SGI CANADA Insurance Services Ltd.
2003

A N N U A L R E P O R T

Responsibility for Financial Statements

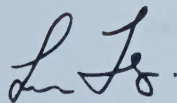
The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

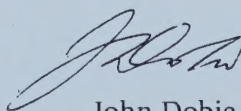
An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.



Larry Fogg
President



John Dobie
Vice President
Finance

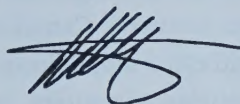
February 13, 2004

Actuary's Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2003 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Richard Gauthier
Fellow, Canadian Institute of Actuaries

February 13, 2004

Auditors' Report

To the Shareholders of SGI CANADA Insurance Services Ltd.

We have audited the consolidated statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 2003 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 13, 2004

Consolidated Statement of Financial Position

December 31

2003

2002

(thousands of \$)

Assets

Cash and treasury bills (note 3)	\$ 11,702	\$ 8,997
Accounts receivable (note 4)	19,206	25,133
Deferred policy acquisition costs	4,301	3,225
Unpaid claims recoverable from reinsurers (notes 7 & 8)	20,508	17,367
Reinsurers' share of unearned premiums (note 7)	886	728
Future income taxes (note 11)	1,180	1,223
Goodwill	481	481
Investments (note 5)	69,579	52,138
Property, plant and equipment (note 6)	<u>82</u>	<u>185</u>
	<u>\$ 127,925</u>	<u>\$ 109,477</u>

Liabilities

Accounts payable	\$ 2,808	\$ 1,815
Premium taxes payable	644	554
Future income taxes (note 11)	1,007	572
Amounts due to reinsurers (note 7)	2,657	639
Provision for unpaid claims (note 8)	77,475	67,884
Unearned reinsurance commissions	143	101
Unearned premiums	<u>20,425</u>	<u>26,003</u>
	<u>105,159</u>	<u>97,568</u>

Non-controlling interest

913

743

Shareholders' equity

Share capital (note 12)	27,254	17,854
Contributed surplus (note 12)	7,487	7,487
Retained earnings (deficit)	<u>(12,888)</u>	<u>(14,175)</u>
	<u>21,853</u>	<u>11,166</u>
	<u>\$ 127,925</u>	<u>\$ 109,477</u>

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings (Deficit)

year ended December 31	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Gross premiums written	\$ <u>45,334</u>	\$ <u>51,027</u>
Net premiums written	\$ <u>39,164</u>	\$ <u>46,216</u>
Net premiums earned (note 7)	\$ <u>46,429</u>	\$ <u>39,872</u>
Claims incurred (notes 7 and 9)	36,727	41,093
Commissions (note 7)	6,299	6,998
Premium taxes (note 7)	1,690	1,412
Administrative expenses (note 7)	4,317	4,381
Facility Association participation (note 16)	<u>1,063</u>	<u>667</u>
Total claims and expenses	<u>50,096</u>	<u>54,551</u>
Underwriting loss	(3,667)	(14,679)
Investment earnings (note 10)	<u>5,801</u>	<u>3,451</u>
Income (loss) before taxes and non-controlling interest	2,134	(11,228)
Current income tax expense (note 11)	143	—
Future income tax expense (note 11)	478	3,152
Capital taxes	<u>56</u>	<u>56</u>
Income (loss) after taxes and before non-controlling interest	1,457	(14,436)
Non-controlling interest	<u>170</u>	<u>36</u>
Net income (loss)	1,287	(14,472)
Retained earnings (deficit), beginning of year	<u>(14,175)</u>	<u>297</u>
Retained earnings (deficit), end of year	\$ <u>(12,888)</u>	\$ <u>(14,175)</u>

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31

2003

2002

(thousands of \$)

Cash provided by (used for):

Operating activities

Net income (loss)	\$ 1,287	\$ (14,472)
Non-cash items:		
Amortization	571	414
Realized gain on disposal of investments and capital assets	(1,932)	(162)
Gain from equity investment	(173)	(28)
Investment write downs	35	107
Income attributable to non-controlling interest	170	36
Change in non-cash operating items (note 13)	<u>9,186</u>	<u>15,358</u>
	<u>9,144</u>	<u>1,253</u>

Investing activities

Purchases of investments	(123,379)	(112,712)
Proceeds on sale of investments	107,066	113,298
Purchases of capital assets	<u>-</u>	<u>(87)</u>
	<u>(16,313)</u>	<u>499</u>

Financing activities

Common share issuance	-	954
Preferred share purchase	-	(400)
Contributed surplus	<u>9,400</u>	<u>-</u>
	<u>9,400</u>	<u>554</u>

Increase in cash and cash equivalents

2,231 2,306

Cash and cash equivalents:

Balance, beginning of year	<u>4,975</u>	<u>2,669</u>
Balance, end of year	<u>7,206</u>	<u>4,975</u>

Plus treasury bills greater than 91 days to maturity from acquisition date

4,496 4,022

Cash and treasury bills per statement of financial position

\$ 11,702 \$ 8,997

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2003

1. STATUS OF THE CORPORATION

SGI CANADA Insurance Services Ltd. (the Corporation) was incorporated July 18, 1990, under the *Business Corporations Act of Saskatchewan*. The Corporation holds a Saskatchewan provincial insurers' licence under the *Saskatchewan Insurance Act* and is licensed to conduct business in Manitoba, Ontario and Prince Edward Island.

Saskatchewan Government Insurance (SGI CANADA) owns 91% (2002 – 84%) of the Corporation and its financial results are included in the consolidated financial statements of SGI CANADA.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation, its 100%-owned subsidiary, Coachman Insurance Company (Coachman), and its 75%-owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI). All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

The excess of the purchase price of acquired businesses over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. All goodwill acquired in a business combination is allocated to one or more of the Corporation's reporting units as at the date of acquisition.

The goodwill of a reporting unit is tested for impairment on an annual basis. The impairment test can be done between annual tests if an event or circumstance occurs that more likely than not impairs the asset. The goodwill impairment test has two steps. In the first step, the carrying amount of each reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of

goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Any impairment losses arising from the annual tests are charged to income.

Investments

Bonds and debentures are recorded at amortized cost. Treasury bills, common shares and preferred shares are recorded at cost. Dividends on common shares and preferred shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of trade.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives of three years for computer hardware and software and five years for other equipment.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

3. CASH AND TREASURY BILLS

Cash and treasury bills include treasury bills and commercial paper that have an average effective interest rate of 2.8% (2002 - 2.8%) and an average remaining term to maturity of 75 days (2002 - 86 days). The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating agency.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Financed premiums receivable	\$ 7,295	\$ 12,504
Facility Association receivable	4,512	1,747
Due from reinsurers	2,591	2,055
Due from brokers	2,028	3,367
Due from self-insured retentions	1,275	1,285
Accrued investment income	637	501
Investment receivable	536	3,244
Prepaid expenses	58	43
Other	<u>274</u>	<u>387</u>
Total accounts receivable	<u>\$ 19,206</u>	<u>\$ 25,133</u>

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

	<u>2003</u>		<u>2002</u>	
	(thousands of \$)			
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Bonds and debentures	\$ 67,934	\$ 69,114	\$ 46,565	\$ 47,988
Preferred shares	343	344	608	629
Common shares	<u>169</u>	<u>196</u>	<u>3,983</u>	<u>4,274</u>
	68,446	69,654	51,156	52,891
Investments accounted for on an equity basis	<u>1,133</u>	<u>1,133</u>	<u>982</u>	<u>982</u>
Total investments	<u>\$ 69,579</u>	<u>\$ 70,787</u>	<u>\$ 52,138</u>	<u>\$ 53,873</u>

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 5% of the market value of investment assets for corporate bonds and debentures and 25% for bonds and debentures issued by any one province. Also, a minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal values and therefore the average effective rates are not materially different from the coupon rates. Interest is generally payable on a semi-annual basis.

	2003		2002	
	(thousands of \$)			
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	\$ 52	6.5%	\$ —	—
After one through five	19,272	4.3%	13,816	4.5%
After five	18,717	5.3%	10,919	5.9%
Canadian provincial:				
After one through five	6,922	5.8%	4,756	6.5%
After five	7,975	5.8%	5,864	5.7%
Canadian corporate:				
After one through five	9,402	5.1%	7,513	6.0%
After five	5,594	5.7%	3,697	6.2%
Total bonds and debentures	\$ 67,934		\$ 46,565	

(ii) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 3.8% (2002 - 2.0%).

(iii) Preferred shares:

Preferred shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 4.6% (2002 - 5.3%).

(iv) Investments accounted for on an equity basis:

The Corporation has a 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	<u>2003</u>			<u>2002</u>
	(thousands of \$)			
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer hardware, software and other equipment	\$ 795	\$ 713	\$ 82	\$ 185

Amortization for the year is \$103,000 (2002 - \$116,000).

7. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount of \$150,000 on any one loss, and \$250,000 on any one catastrophe.

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions and administrative expenses:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Premiums earned	\$ 4,575	\$ 5,782
Claims incurred	7,788	17,645
Commissions and premium taxes	242	406
Administrative expenses	45	185

8. PROVISION FOR UNPAID CLAIMS

(i) Nature and variability of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the statement of financial position date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

Through its subsidiary, the Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the statement of financial position date total \$676,000 (2002 - \$718,000).

Changes in the estimate for the provision for unpaid claims are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Net unpaid claims – beginning of year	\$ 50,517	\$ 37,925
Provision for self-insured retention	(1,285)	(705)
Payments made during the year relating to prior year claims	(16,353)	(15,987)
(Excess) deficiency relating to prior year estimated unpaid claims	<u>2,141</u>	<u>7,125</u>
Net unpaid claims for claims of prior years	35,020	28,358
Provision for claims occurring in the current year	<u>21,947</u>	<u>22,159</u>
Net unpaid claims – end of year	<u>\$ 56,967</u>	<u>\$ 50,517</u>

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

	2003			2002		
	(thousands of \$)					
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	\$ 70,400	\$ 18,244	\$ 52,156	\$ 62,738	\$ 15,506	\$ 47,232
Property	3,232	638	2,594	2,382	523	1,859
Liability	3,843	1,626	2,217	2,764	1,338	1,426
Total	\$ 77,475	\$ 20,508	\$ 56,967	\$ 67,884	\$ 17,367	\$ 50,517

9. CLAIM DEVELOPMENT RECOVERY

The Corporation acquired 75% of the outstanding shares of the Insurance Company of Prince Edward Island (ICPEI) for cash of \$2,770,000 on Jan. 1, 2001. A recovery on prior year claim development was negotiated as part of the purchase agreement whereby the previous owner will refund to the Corporation an amount equal to 75% of any unfavourable development on claims in ICPEI with loss dates prior to 2001. Conversely, the Corporation will pay to the previous owner an amount equal to 75% of favourable development on claims with loss dates prior to 2001. The payment in both instances is subject to a \$100,000 deductible and is calculated after tax. This agreement is in effect until Dec. 31, 2003 with payment to be made by March 31, 2004. In 2003, unfavourable development on these prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of \$4,000 (2002 - \$72,000). The total receivable at Dec. 31, 2003 is \$537,000 (2002 - \$533,000).

On July 1, 2001 the Corporation acquired 100% of the outstanding shares of Coachman Insurance Company (Coachman) for cash of \$8,185,000. Of the original investment of \$8,185,000, \$2,700,000 was held in a trust account by the Corporation's legal counsel as a holdback for recovery of unfavourable claim development on claims with loss dates prior to April 30, 2001. This agreement was in effect until Dec. 31, 2002 and final payment of \$2,700,000 was received in March 2003.

10. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Interest and dividends	\$ 3,226	\$ 2,504
Realized gain on sale of investments	1,954	184
Income from financing	482	842
Income from equity investments	174	28
Investment writedowns	<u>(35)</u>	<u>(107)</u>
Total investment earnings	<u>\$ 5,801</u>	<u>\$ 3,451</u>

Investment writedowns relate to Canadian common shares.

11. INCOME TAX

The Corporation's provision for income taxes is as follows:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Current	\$ 143	\$ -
Future	<u>478</u>	<u>3,152</u>
Total income tax expense	<u>\$ 621</u>	<u>\$ 3,152</u>

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Net income (loss) before income taxes	<u>\$ 2,134</u>	<u>\$ (11,228)</u>
Combined federal and provincial tax rate	40.12%	42.62%
Computed tax expense based on combined rate	\$ 856	\$ (4,785)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(48)	(1,243)
Adjustment to future tax assets for enacted changes in tax laws and rates related to non-capital losses	1,451	2,060
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(411)	(635)
Difference in tax rates between subsidiaries and parent	(11)	568
Valuation allowance	(1,218)	7,140
Other	<u>2</u>	<u>47</u>
Total income tax expense	<u>\$ 621</u>	<u>\$ 3,152</u>

The components of future income tax balances are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Tax loss carryforward	\$ 7,970	\$ 6,997
Provision for unpaid claims	1,522	1,243
Other	<u>46</u>	<u>123</u>
	9,538	8,363
less: valuation allowance	<u>(8,358)</u>	<u>(7,140)</u>
Future income tax assets	<u>1,180</u>	<u>1,223</u>
Bonds and debentures	604	238
Unpaid claims recoverable from reinsurers	403	327
Other	<u>-</u>	<u>7</u>
Future income tax liabilities	<u>1,007</u>	<u>572</u>
Net future income taxes	<u>\$ 173</u>	<u>\$ 651</u>

The Corporation has non-capital loss carryforwards of approximately \$22,065,000 (2002 - \$23,156,000) that expire on dates ranging from 2007 to 2009.

12. SHARE CAPITAL

The Corporation is authorized to issue an unlimited number of common shares and an unlimited number of non-voting first preferred shares. During the year, the Corporation issued 2,748,538 common shares to SGI CANADA in exchange for \$9,400,000. At the end of 2003 there are 6,155,616 (2002 - 3,407,078) common shares issued. In 2002, the Corporation issued 164,785 common shares to SGI CANADA in exchange for \$954,000.

13. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Change in non-cash operating items:		
Accounts receivable	\$ 5,927	\$ (7,469)
Deferred policy acquisition costs	(1,076)	233
Unpaid claims recoverable from reinsurers	(3,141)	(11,101)
Reinsurers' share of unearned premiums	(158)	762
Future income taxes	478	3,158
Accounts payable	993	534
Premium taxes payable	90	159
Amounts due to reinsurers	2,018	209
Provision for unpaid claims	9,591	23,693
Unearned reinsurance commissions	42	(399)
Unearned premiums	<u>(5,578)</u>	<u>5,579</u>
	<u>\$ 9,186</u>	<u>\$ 15,358</u>

14. FAIR VALUE

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

- (i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:
 - (a) cash and treasury bills
 - (b) accounts receivable
 - (c) accounts payable
 - (d) premium taxes payable
 - (e) amounts due to reinsurers
- (ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges based on the latest bid prices:
 - (a) bonds and debentures
 - (b) common shares
 - (c) preferred shares

(iii) Equity investments

The fair value of investments accounted for on the equity basis is considered to approximate book value.

(iv) Provision for unpaid claims and unpaid claims recoverable from reinsurers

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Transactions and amounts outstanding at year end are as follows:

<u>Category</u>	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Investments	\$ 1,192	\$ 896
Accounts receivable	5	3
Investment earnings	74	58

SGI CANADA provides management and administrative services to the Corporation as well as being the reinsurer (note 7). Administrative and claim adjusting expenses incurred by SGI CANADA and charged to the Corporation were \$573,000 (2002 - \$55,000) and accounts payable are \$744,000 (2002 accounts receivable - \$283,000).

Through its 75% ownership in ICPEI, the Corporation has direct premiums that are written with Charlie Cooke Insurance Agency Ltd., claim adjusting fees from Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. The policies written and the claim adjusting expenses paid are in the normal course of business. Transactions and amounts outstanding at year-end are as follows:

<u>Category</u>	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Accounts receivable	\$ 644	\$ 624
Accounts payable	60	54
Premiums written	9,848	8,862
Commissions paid	1,328	1,056
Claims incurred	426	360
Premiums financed	3,885	3,363

In 2003, the Corporation entered into an agreement with SGI CANADA through its subsidiary Coachman, whereby SGI CANADA would transfer to Coachman net amounts recoverable after Dec. 31, 2002 on reinsurance for adverse loss development on Coachman losses occurring prior to April 30, 2001. Coachman will reimburse SGI CANADA for any costs it may incur under the reinsurance contract. At Dec. 31, 2003, \$1,945,000 was accrued under this reinsurance policy and has reduced claims incurred.

Other related party transactions are disclosed separately in the notes to the financial statements.

16. FACILITY ASSOCIATION

Through its subsidiaries, the Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands of \$)	
Gross premiums written	<u>\$ 4,341</u>	<u>\$ 2,032</u>
Net premiums written	<u>\$ 4,341</u>	<u>\$ 2,032</u>
Net premiums earned	<u>\$ 3,231</u>	<u>\$ 1,640</u>
Claims incurred	3,594	1,907
Commissions	253	217
Premium taxes	103	67
Administrative expenses	<u>472</u>	<u>169</u>
Total claims and expenses	<u>4,422</u>	<u>2,360</u>
Underwriting loss	(1,191)	(720)
Investment earnings	<u>128</u>	<u>53</u>
Net loss	<u>\$ (1,063)</u>	<u>\$ (667)</u>
Facility Association receivable	\$ 4,512	\$ 1,747
Unearned premiums	1,687	555
Provision for unpaid claims	4,512	2,457

17. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2002 balances have been reclassified to conform to 2003 financial statement presentation.

